

Message Text

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51

ACTION EB-07

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 NEA-10 ISO-00 AEC-07

AID-05 CEA-01 CIAE-00 CIEP-02 COME-00 DODE-00 FEAE-00

FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 RSC-01 SAM-01 OES-05 SP-02 SS-15 STR-04 TRSE-00

FRB-01 IO-10 PA-02 PRS-01 USIA-15 /158 W

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R 181642Z NOV 74

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 1396

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY AMMAN

AMEMBASSY BONN

AMEMBASSY CAIRO

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

:AMEMBASSY LONDON 3168

AMEMBASSY QUITO

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY TOKYO

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS UNN

AMCONSUL DHAHRAN

USINT BAGHDAD UNN

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KUWAIT PASS DOHA

EO 11652: N/A

TAGS: ENRG, EFIN, XF

SUBJECT: PETROLEUM: MEES SEES MAJORS' MARKET SHRINKING

REF: ABU DHABI 1572

SUMMARY: MEES SEES NEW FISCAL ARRANGEMENTS ADOPTED AT ABU DHABI AS CAUSING MAJORS (MAINLY ARAMCO) TO REDUCE LIFTINGS TO AMOUNT NEEDED FOR PARENTS' OPERATIONS ONLY. STRONG IMPLICATION THAT DIRECT DEALINGS BETWEEN OPEC AND CONSUMER NATIONAL OIL COMPANIES WILL PROLIFERATE. NEW ARRANGEMENTS ALSO SEEN AS PRESSURE ON ARAMCO AND SETBACK FOR INFLATION INDEXING ASPECT OF SHAH'S UNIFORM PRICE PROPOSAL. END SUMMARY.

1. BEIRUT'S WEEKLY MIDDLE EAST ECONOMIC SURVEY (MEES) DATED NOVEMBER 15 CARRIED 11-PAGE ANALYSIS BY NEWS EDITOR IAN SEYMOUR OF PETROLEUM FISCAL CHANGES (POSTED PRICE REDUCTION OF 40 CENTS/BARREL ACROSS BOARD, ROYALTY INCREASE TO 20 PERCENT, INCOME TAX INCREASE TO 85 PER CENT) ADOPTED AS OF NOVEMBER 1 BY ABU DHABI, QATAR AND SAUDI ARABIA AT ABU DHABI NOVEMBER 10. SUMMARY OF FISCAL EFFECTS AND IMPLICATIONS FOLLOWS.

2. FISCAL CHANGES PER BARREL (BBL) FOR ARABIAN LIGHT MARKER CRUDE, ASSUMING 10-CENT/BBL ACTUAL PRODUCTION COST (MEES SAYS THAT SINCE 1970 ARAMCO'S COST EXCEEDS 10 CENTS AND MAY NOW BE AS MUCH AS 17 CENTS:

(A) POSTED PRICE: DOWN FROM \$11.651 TO \$11.251

(B) GOVERNMENT TAKE ON EQUITY CRUDE: UP FROM \$8.260 TO \$9.816.

(C) AVERAGE GOVERNMENT TAKE ON 60/40 MIX: UP FROM \$9.745 TO BETWEEN \$10.144 AND \$10.266 DEPENDING ON HOW MUCH GOVERNMENT CRUDE IS BOUGHT BACK AT 94.8 PER CENT AND HOW MUCH AT 93 PER CENT OF POSTED PRICE.

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(D) TAX-PAID COST (TPC) TO MAJORS ON EQUITY CRUDE: UP FROM \$8.360 TO \$9.916.

(E) BUY-BACK PRICE TO MAJORS: DOWN FROM \$10.835 (93 PER CENT OLD POSTING) TO \$10.666 (94.8 PER CENT NEW POSTING).

(F) AVERAGE COST TO MAJORS: DEPENDENT UPON HOW

MUCH BOUGHT BACK; RANGES FROM \$10.366 AT ENTIRE 60PER CENT OF GOVERNMENT CRUDE TO \$10.166 AT 20 PER CENT OF GOVERNMENT CRUDE.

(G) SAUDI GOVERNMENT DIRECT-SALE PRICE: DOWN FROM \$10.835 TO \$10.463.

3. SAUDIS TO HAVE TWO-TIER BUY-BACK PRICE: MEES SAID THE THREE HAVE AN UNDERSTANDING TO CHARGE MAJORS 94.8 PER CENT BUT SAUDI OILMIN YAMANI TOLD MEES THAT, WHILE ARAMCO WILL BE CHARGED 94.85 PER CENT, SAUDIS WILL MARKET GOVERNMENT CRUDE DIRECT TO THIRD PARTIES AT 93 PER CENT. (WHICH, PER PARA 2 (G) ABOVE, IS NOW 37.2 CENTS CHEAPER AND, PER PARA 2 (F) FROM ONLY 9.7 TO 29.7 CENTS/BBL ABOVE ARAMCO'S AVERAGE COST). YAMANI ALSO SAID NEW LOWER THIRD-PARTY PRICE WILL APPLY BOTH TO NEW SALES AND EXISTING CONTRACTS. HE ADDED THAT SAUDIS "WOULD BE SELLING MORE CRUDE ON A DIRECT BASIS TO THIRD PARTIES IN NOT TOO DISTANT FUTURE". MEES SAID UAE OILMIN OTAIBA, ON OTHER HAND, TOLD MEES CATEGORICALLY THAT UAE WILL USE 94.8 PER CENT OF NEW POSTINGS FOR BOTH BUY-BACK AND DIRECT THIRD-PARTY SALES.

4. EFFECT ON MAJORS (READ ARAMCO): AFTER MASSIVE OIL PRICE INCREASES TOOK EFFECT JANUARY 1 AT OLD ROYALTY OF 12.5 PER CENT AND INCOME TAX OF 55 PER CENT FOR MAJORS' REMAINING 40 PER CENT OF PRODUCTION, MAJORS ENJOYED DURING JANUARY-JUNE ON EQUITY CRUDE MARGIN OF NEARLY \$4/BBL UNDER DIRECT SALE PRICE FIXED BY GULF NATIONAL OIL COMPANIES (NOCS) OF 93 PER CENT OF POSTED PRICE, MEES RECALLED. MAJORS COULD THEREFORE BUY BACK ALL GOVERNMENT CRUDE, UNDERCUT ARAB NOCS AND STILL MAKE GOOD PROFITS, MEES SAID. SUMMER SURPLUS AGGRAVATED NOCS' DIFFICULTIES ALTHOUGH JULY 1 AND UNCLASSIFIED

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OCTOBER 1 ROYALTY AND TAX INCREASES FOR ALL BUT SAUDI ARABIA TO 16.67 PER CENT AND 65.75 PER CENT RESPECTIVELY WHITTLED ZSVE MAJORS' MARGIN TO ABOUT \$2.50. NOW, IN MEES WORDS: "THE MAJORS WILL NO LONGER BE ABLE TO MATCH LET ALONE UNDERCUT NOC PRICES TO THIRD PARTIES WITHOUT REDUCING THEIR MARGINS TO UNACCEPTABLE LEVELS. THIS SHOULD MEAN THAT BEFORE TOO LONG THE CONSUMER INDEPENDENTS WILL BE BEATING A PATH TO THE OPEC NOCS, WHILE THE MAJORS- WITH ONLY NEGATIVE RETURN IN PROSPECT FOR THIRD-PARTY SALES BUSINESS - WILL BE TENDING TO TRIM THEIR PURCHASES OF HIGH-COST BUY-BACK OIL DOWN TO THE MINIMUM REQUIRED TO COVER THEIR INTEGRATED NEEDS".

5. ARAMCO TAXES AND TAKEOVER TALKS: OILMIN YAMANI ALSO TOLD MEES OPEC'S JULY AND OCTOBER ROYALTY AND TAX RATE

INCREASES WOULD BE APPLIED RETROACTIVELY " IN THIS CONNECTION, MR. YAMANI SAID THAT SAUDI ARABIA WOULD NOW BE READY TO RESUME NEGOTIATIONS WITH THE FOREIGN OWNERS OF ARAMCO ON THE PROPOSED NEW ARRANGEMENT, SUCH NEGOTIATIONS HAVING BEEN IN A STATE OF 'INTERRUPTION' FOR SOME TIME PAST."

6. SAUDI MOTIVES: MEES SAW THREE: (1) "TO TAKE APPROPRIATE ACTION IN VIEW OF ARAMCO'S CONTINUED FAILURE TO COME TO TERMS" ON THE SAUDIS' PROPOSED 100 PER CENT TAKEOVER, (2) TO REALIZE LONG-STANDING OBJECTIVE OF LOWERING POSTED PRICES AS GESTURE TO CONSUMERS, PARTICULARLY EUROPE AND JAPAN, (3) "TO PREEMPT ANY INCONVENIENT DECISIONS THAT MIGHT BE TAKEN" AT OPEC'S DECEMBER 12 CONFERENCE IN EITHER VIENNA OR ALGIERS.

7. EFFECT ON SHAH'S UNIFORM PRICE PROPOSAL: MEES SAID THAT SAUDI FAIT ACCOMPLI FAVORS NOCS IN EUROPE AND JAPAN, SQUEEZING THE MAINLY US-BASED MAJORS AND, THROUGH FREEZING FISCAL ARRANGEMENTS THROUGH NEXT JULY, IS AN EFFORT TO STABILIZE PRICES THROUGH FIRST-HALF 1974, IN CONTRAST TO THE SHA'S PROPOSED INFLATION INDEXING AFTER JANUARY 1.
GODLEY

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